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INTERNATIONAL ECONOMIC DEVELOPMENTS: The developed countries have turned their attention to US tax measures and to monetary reform in view of the failure of the EC to reach a common position on currency realignment.

They are becoming more critical of the US surcharge and the proposed investment tax credit. In international forums the Europeans, in particular, are labeling the tax measures protectionist and are more frequently and explicitly suggesting offsetting measures. This reflects the increased pressures governments are receiving from industries that expect to be hard hit by the combination of revaluations, the surcharge, and the exclusion of foreign goods from the tax credit. Industrial equipment manufacturers in the Netherlands, which is heavily dependent on foreign trade earnings, are complaining that they face a 25-percent increase in export prices to the US over those of last April.

The EC countries have made no significant progress in responding collectively to the US moves and are now directing their efforts toward international monetary reform. The EC Commission proposed yesterday that international reserves be composed of gold and increasingly of Special Drawing Rights, as the dollar and the pound are phased out of their role as reserve currencies. Moreover, fixed parities would be restored, but with a moderate widening of the fluctuations permitted around parity. (CONFIDENTIAL NO FOREIGN DISSEM)

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CAMBODIA: Elite Khmer Krom units evidently have moved closer to semiautonomous status within the Cambodian Army.

Prime Minister Lon Nol has authorized the formation of a high-level Khmer Krom (KK) "committee" to coordinate and oversee Khmer Krom military affairs. The committee is headed by a prominent KK civilian, but all other key positions are held by KK commanders. The committee's organization parallels that of the Cambodian Army (FANK) headquarters and presumably is meant to supplant the latter as a staff organization for some 14 KK infantry brigades in the country.

The committee's establishment appears to have been prompted by the concern of KK officers over what they viewed as serious shortcomings in FANK's use of their units. Their grievances have included a lack of operational planning, poor logistical support, and the failure to clamp down on corruption.

The establishment of the committee appears, however, to be a step backward from the government's half-hearted efforts to integrate the KK fully into the Cambodian Army. It is not yet clear how the new KK organization will operate in practice, or how it will relate to FANK headquarters, particularly in supply procurement. There has been a minimum of difficulty so far between the KK and the FANK hierarchy, which appears to have subordinated questions about the KK's political loyalties to the realization that the KK units are Cambodia's most effective fighting force.

While it is not yet clear who took the initiative in setting up the new committee, Lon Nol probably estimates that by giving KK units such a wide measure of military independence he has insured the retention of their political support. (SECRET NO FOREIGN DISSEM)

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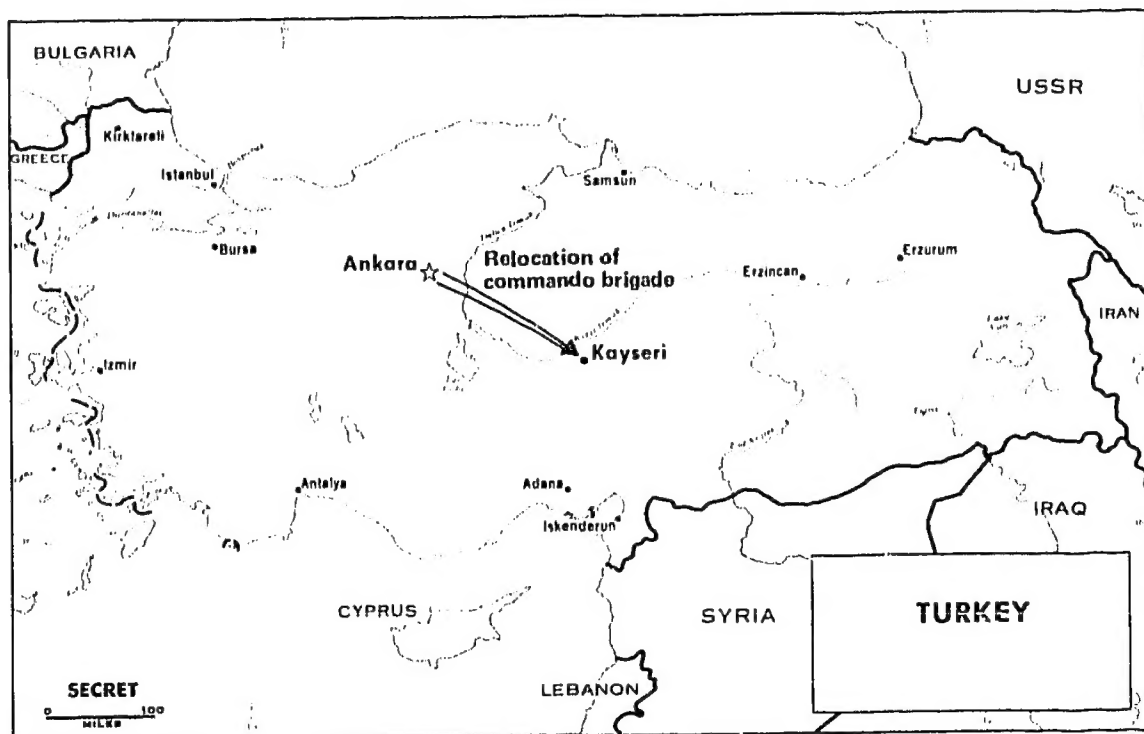
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JORDAN: The "National Union," announced on 7 September, is intended both as a safe way of channeling discontent and as a means of galvanizing support for the regime.

The union is the brainchild of Prime Minister Wasfi Tal and is touted as the country's only political party, but it is too narrow to be called truly national. It tends to formalize political orthodoxy; although theoretically open for all, it will not be extended to Tal's political opponents who were recently divested of their Senate seats. Branches of the union are to be set up in each town and region and will influence local elections, municipal councils, and eventually, perhaps, even elections to parliament. Members of the "establishment" apparently hope that it will dominate the political scene by absorbing various political personalities and tendencies that might otherwise threaten the regime, such as Jordanian youth. Prime Minister Tal's political stock has apparently gone up somewhat in the wake of the announcement.

Jordanian political leaders also hope that the National Union will help keep restive West Bankers in the political fold, although the exclusion of some political leaders may make it more an obstacle than a bridge to increased solidarity. The union, however, should appeal to the East Bank, whose political groupings and prominent personalities have been largely excluded from national politics as a result of the stormy events of the past year. (CONFIDENTIAL)

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TURKEY-CYPRUS: The Turkish Airborne Commando Brigade has recently left Ankara and probably will relocate at Kayseri, some 200 miles to the south-east. Movement of the brigade to Kayseri has been rumored for several months.

The brigade, composed of four battalions with a combined strength of about 4,000, has long been viewed as the probable strike force if the Turks decide to intervene on Cyprus. Its relocation to the Kayseri area would not only limit foreign observation but would also place it at a base that is intended to have 20 new transport aircraft, some of which already have arrived. The move would also reduce the time required for any unilateral military action against Cyprus. (SECRET)

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BOLIVIA: Several clashes between army units and guerrilla groups have been reported.

Details of the engagements are unclear, but Interior Minister Selich has informed the US Embassy that the initial encounter occurred on 3 September. According to Selich, guerrilla dead include a Cuban and a Frenchman as well as individuals from various South American nations. Unconfirmed press reports implicate Oscar Zamora's Peking-oriented Communist Party (PCB/C) and the Union of Poor Peasants (UCAPO), which is also headed by Zamora. The alleged presence of foreigners, however, suggests that the National Liberation Army may also be involved.

The clashes appear to have resulted from military initiatives rather than guerrilla attacks. The Banzer regime may be taking pre-emptive measures against a real guerrilla-terrorist threat, or merely indulging in a repressive campaign against the extreme left. (CONFIDENTIAL)

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UGANDA-USSR: President Amin's recent overture to the Soviet Union appears to have been largely a pragmatic effort to seek help for his country's deteriorating economy.

Last week Amin said that a ministerial delegation would visit the Soviet Union to develop trade and economic links between the two countries. Amin told a Soviet Embassy official that the USSR is one of Uganda's "closest friends," citing specifically its past aid to Uganda.

Amin apparently was motivated by hopes of increasing Soviet aid, which has been relatively modest in the past. Although the President's moves are a marked change from the cool attitude Uganda has maintained toward the Soviet Union since he seized power last January, this is probably not an indication that Amin intends to alter his own strongly anti-Communist stand and his government's pro-Western position.
(CONFIDENTIAL)

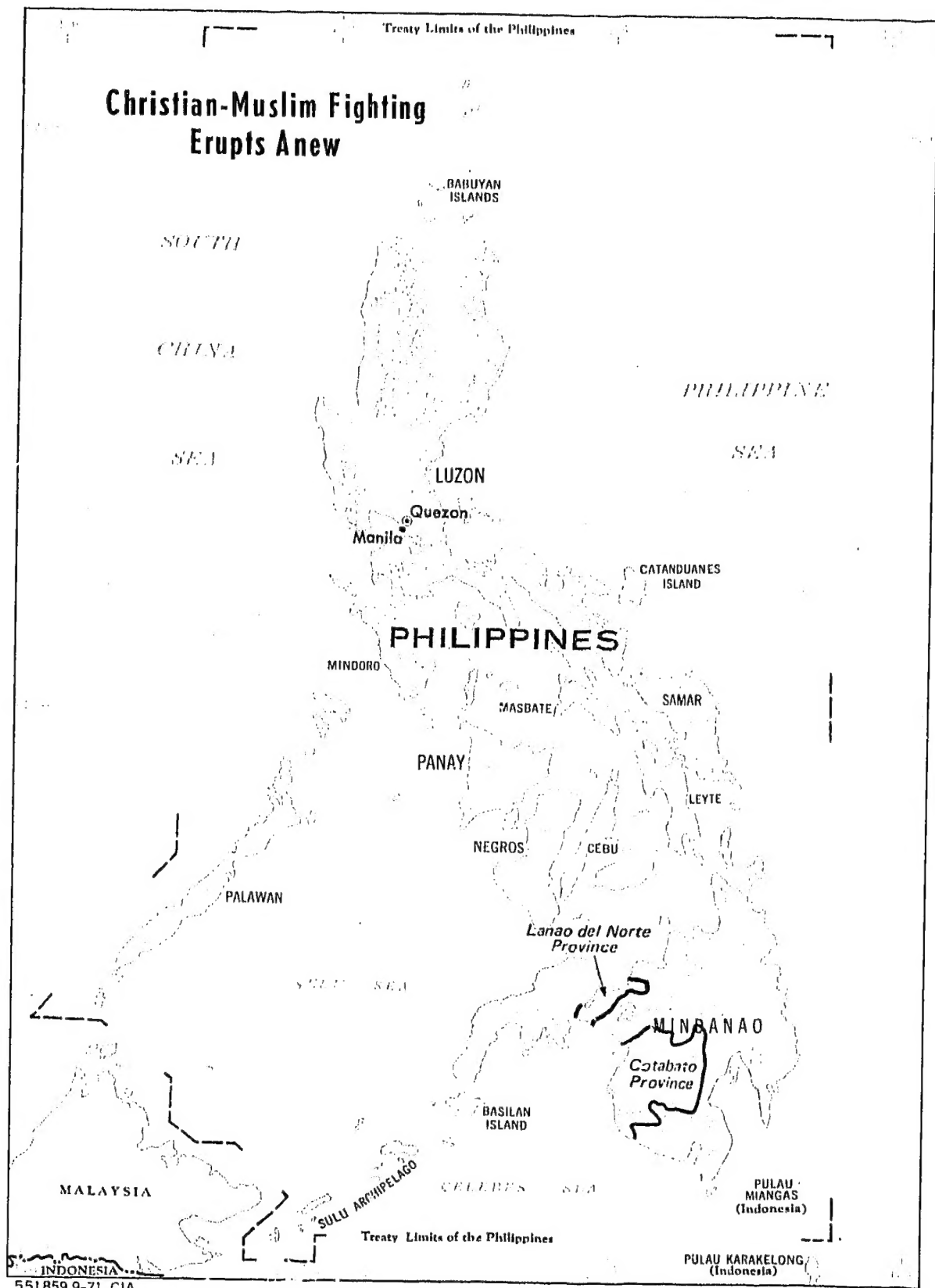
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PHILIPPINES: The government has taken steps to quiet a resurgence of fighting between Muslims and Christians in Mindanao.

Communal tensions erupted into armed conflict as a result of a power struggle in Lanao del Norte Province between the area political boss, a Muslim, and the provincial governor, a Christian. The Muslims have had the best of the exchange, and at least 6,000 Christian families have fled to more heavily Christian areas. Spurred in part by exaggerated stories in the Manila press, the government has doubled the constabulary force in the province and has brought in a new commander. In addition, President Marcos has met with the province's two political rivals.

The Lanao problem appears to be more manageable than the religious conflicts in nearby Cotabato Province, but it remains to be seen whether Marcos will overcome his party affiliation with the Muslim political boss to play an even-handed role. (CONFIDENTIAL)

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GHANA: The Busia government has moved to break the back of organized labor, the strongest independent force in Ghana since the Nkrumah era.

Stung by recent sharp attacks on its new austerity measures by leaders of Ghana's central labor federation, the government this week rushed through parliament a measure that abolishes the federation, eliminates the dues check-off system, and forbids compulsory union membership. In addition, the labor minister has been given power to decree a 90-day cooling-off period to prevent threatened strikes.

Prime Minister Busia claims the move is directed solely at the federation, which he asserts has retained excessive powers it gained as an arm of the Nkrumah regime, but the legislation strikes at the basic sources of strength of the constituent unions as well. Deprived of a secure financial base and the power to compel workers to become members and faced with increased legal restrictions on their right to strike, Ghana's heretofore strong trade unions are likely to become weak and disorganized.

Various security services, which have been mobilized for some time to deal with labor unrest, expect some demonstrations against the new measures to begin today. Only the important dockworkers union appears to have definite plans to take to the streets so far, but police officials believe that labor leaders are preparing a nationwide strike in an open showdown with the government.

The government has announced it will deal harshly with any strikes, and it seems unlikely that they will get out of hand at any early stage. Over the long term, however, the blow against the unions may deepen worker disenchantment with Busia, especially if the regime maintains its uncompromising stand against their demands for relief from serious inflation. The government could be confronted with a growing wave of wildcat strikes and other spontaneous worker demonstrations. (SECRET)

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NOTE

BARBADOS: Prime Minister Errol Barrow's Democratic Labor Party (DLP) won an overwhelming victory in the 9 September general election by gaining 18 of the 24 House of Assembly seats. Barrow received a clear-cut mandate to form a government for the next five years. The DLP's two-thirds parliamentary majority will enable Barrow for the first time to make constitutional changes if he wishes. Bernard St. John, who has been the opposition leader in the House, failed to win re-election. Although Barrow may foster increased nationalism, his traditional moderate-socialist, pro-US posture is expected to continue.
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